

School Finance Reform Proposal

M. Lehman/W. Wood

Overview

For the past 6 years, State Representatives Michael Lehman (R-Hartford) and Wayne Wood (D-Janesville) have been working on developing a proposal to reform the financing system for public education in the State of Wisconsin. The proposal outlined below is a culmination of their work, which takes into consideration various court rulings.

In developing their proposal, Representatives M. Lehman and W. Wood first set forth a set of criteria to be met. These criteria included: 1) Eliminate the reliance of the educational financing system on the local property tax; 2) Insure that the public educational system has sufficient funding resources; 3) Create an equitable funding system that will benefit all districts; 4) Minimize the often contentious political debate concerning the issue of educational funding in the state budgetary process; and, 5) Achieve all goals without raising the overall tax burden on Wisconsin residents.

The core of the School Finance Reform Proposal is the origin of the funding. With the move away from the local property tax, an alternative funding source was needed. Data provided by the Legislative Fiscal Bureau indicated that perhaps a suitable alternative source would be the sales tax as records indicate that over the past decade sales tax receipts grew at a slightly higher rate than school costs. As a result, the Proposal was crafted incorporating a freeze at current levels of GPR funding for education with a portion of the state sales tax providing the balance needed plus an annual increase. The GPR funding and the sales tax revenue would be placed into a new segregated fund to be distributed to school districts.

The second major component of the School Finance Reform Proposal is how general aid is distributed to school districts. The design is to have the general aid to each school district converge to an equal amount over 20 years. Each school district would have a potentially unique percentage rate of annual increase in general aid. This percentage would remain the same for the duration of the 20 years allowing for both the state and the school districts to easily budget for future years. The proposal contains a provision providing for the State to assess the performance of the new financing program after 7 years.

While drastically reducing reliance on property taxes, school districts will retain the ability to levy a 3 mill local property tax to fund capital improvement projects. The state would provide funding assistance for capital improvement projects based on the current equalized aid formula. The formula takes into account the ability of each school district to raise revenue with a local property tax.

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The School Finance Reform Proposal contemplates the following provisions:

Section I: Funding System-

With the exception of the transportation categorical aid for school bussing, repeal or eliminate all current funding sources and programs along with all references to a set percent of cost commitment by the state. In addition, repeal current referendum provisions in the state statutes.

- 1) Create a new Segregated Fund for financing Wisconsin's public education system.
- 2) Commit on an annual basis, state GPR dollars at a dollar level equal to the last year of state GPR commitment under the prior funding system. Annual GPR commitment frozen at this dollar level. These monies to be placed in the newly created SEG fund for public education.
- 3) Increase the state sales tax rate and commit a certain percentage of annual sales tax revenues to the educational SEG fund.
 - A) Increase the state sales tax rate from 5% to 7.75% but maintain the current sales tax base leaving all current sales tax exemptions in place. Then, commit 41% of annual state sales tax revenue to the educational SEG fund.
 - B) Should annual sales tax revenues exceed cost demands, the excess revenue shall remain in the educational SEG fund establishing in essence, a "Rainy Day Fund" for use in years when sales tax revenues do not meet cost demands.

Section II: State Educational Aid Distribution-

Annual school aid distributions will be drawn from the newly created educational SEG fund and would be designed to converge all school districts to the same spending level over a 20-year period. The proposal aims to bring each school district up to a spending level of \$19,000 per student in 20 years. To determine each district's annual increase requires using its current spending per student as a base, and figuring an annual percentage rate increase that would bring the school district to \$19,000. Once this percentage rate were determined, the rate would then remain unchanged for the 20-year period allowing the state and school district to easily determine the level of annual funding available far into the future.

Under the new funding system, each school district will receive an annual state aid distribution payment. In the first year, the district will receive a payment equal to its Total Current Educational Cost* (TCEC) of the prior year plus the set percentage determined to converge the school district to \$19,000/student in 20 years. Each year thereafter, a district's aid payment will equal the prior year's distribution plus the set percentage increase. For these computations, an average of the 3 highest years of enrollment during the previous 5 years shall be used.

Inflationary Adjustment

The convergent amount will be adjusted for inflation.

Appeals Process for Special Education

In the event that a school district experiences an unanticipated increase in demand for special education services, the proposal includes a provision for the school district to obtain additional state aid from the SEG fund. The school district would be able to appeal to the state for additional funding to cover the special education costs. The state would review the appeal and determine if additional aid to the district is justified. Any dollars sought and gained through appeal shall not be permanent and will be reviewed each year. The qualifying factor to allow for an appeal for additional special education funding will be an increase of special education costs as a percent of total costs for the district. This could be adjusted to include other groups, and this process could be used for other purposes as deemed necessary.

Section III: State Aid for Capital Expenditures-

The state will continue to assist school districts in providing funding for capital improvement projects. Funding would be determined on a district-by-district basis utilizing the current equalized aid formula. The percentage rate of capital assistance a district receives for a project will be based upon the equalized value of the district the first year of the project. The goal being to provide districts with lower equalized value per student levels a higher degree of state assistance.

- 1) Local approval for a building project would be granted by a super-majority of the school board. If approval is granted, the district may levy a local property tax not to exceed 3 mills to fund the project. The board may not act to exceed the 3-mill levy limit and the **local referendum process is eliminated.**
- 2) Establish a state review board for building projects. This board will determine educational need for the project for purposes of state aid. State aid to be contributed only for the portion of the project determined to be an educational need. Approval by the review board will be required for state aid in funding the project.
- 3) Pending approval by the review board, the state then provides funding assistance for local building projects at a rate determined by the capital assistance formula.
- 4) K8/UHS districts would split the 3-mill levy based on the K8 vs. UHS enrollments.
- 5) If a school district's current capital debt obligations would exceed the revenue generated by the levy, the district would be able to levy the necessary mill rate to satisfy those obligations.
- 6) Other than for emergencies as determined by the State Review Board, districts would not be able to begin any new construction or remodeling projects until their mill rate is brought below the 3-mill limit.
- 7) The 3-mill local option for K-8 UHS Districts will be prorated at 1.75-mills for the union high schools and 1.25-mills for the K-8 feeder schools, unless these districts agree upon a different proportion.
- 8) These dollars could not be used or considered in wage and benefit negotiations.

-Provisions under this section only apply to new projects.

Section IV: Renters Equity Payment-

Under this plan, renters would also benefit from the reduction in property taxes.

Section V: Teacher Salaries-

- 1) Eliminate the Qualified Economic Offer.
- 2) Salaries shall be paid out of the annual per student state aid funding.
- 3) The salary schedules for licensed teachers shall be unfrozen.
- 4) In the event the parties are not able to reach a contract agreement, a dispute resolution process will be implemented. Any settlement reached could not exceed the dollars available from state funding.

Section VI: "Third Party" Funding Sources-

- 1) Any new grants, Federal or other, directly distributed to a school district will not count against the district's annual state aid distribution nor would the associated costs of the new grants be included in the district's TCEC number.
- 2) Upon completion or exhaustion of the "third party" grant, the costs associated with the grant will continue to be excluded from the district's TCEC calculations and the district's state aid will not be increased to cover those costs. The district, should it desire to acquire additional funding to replace the grant money, must on its own acquire the needed funds or incorporate the costs into its current budget. The local 3-mill property tax should not be used for this purpose.

Section VII: District Reserve Fund Balances-

Although a school district is allowed to levy a local property tax at a rate up to 3 mills, the district should not levy the tax simply because it has the ability to do so. A district should not generate revenue in excess of its needs.

- 1) A school district's Reserve Funds, both designated and undesignated, shall not exceed 18% of the district's annual budget.
- 2) If a districts reserve fund balances currently exceed 18%, the district must work to spend down balances to 18% within a reasonable time frame.
- 3) If a district is generating revenue in an amount that will cause the reserve funds to exceed the 18% level, the district shall reduce its local property tax levy or pay down debt to gain compliance.

Section VIII: Program Evaluation/Review-

Provide for an evaluation and review of the school-financing program after 7 years to ensure that the program is functioning as it should and that the target goals for financing are realistic and appropriate and allow for needed changes.

- ❖ The numbers and values used in this document are subject to change as more current data is received regarding the TCEC and pending review by the Legislative Fiscal Bureau.
 - ❖ The Wisconsin Department of Public Instruction defines the TCEC or Current Educational Cost as identifying "overall instructional and instructional support service costs attributable to district residents. It can generally be described as the cost of the district's General and Special Project funds, excluding transportation and facility acquisition expenditures, less inter-fund transfers and revenues for instructional services the district provides to non-resident pupils such as tuition receipts, CESA and cooperative agreements, and state inter-district integration aid."
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For more information contact:

Rep. Michael Lehman (608) 267-2367

Rep. Wayne Wood (608) 266-7503